McKinsey Global Institute

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Urban world: The shifting global business landscape

The McKinsey Global Institute

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Urban world: The shifting global business landscape

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The global business landscape in 2010 …

8,000 companies worldwide exceed our "large company" benchmark of $1 billion in annual revenue

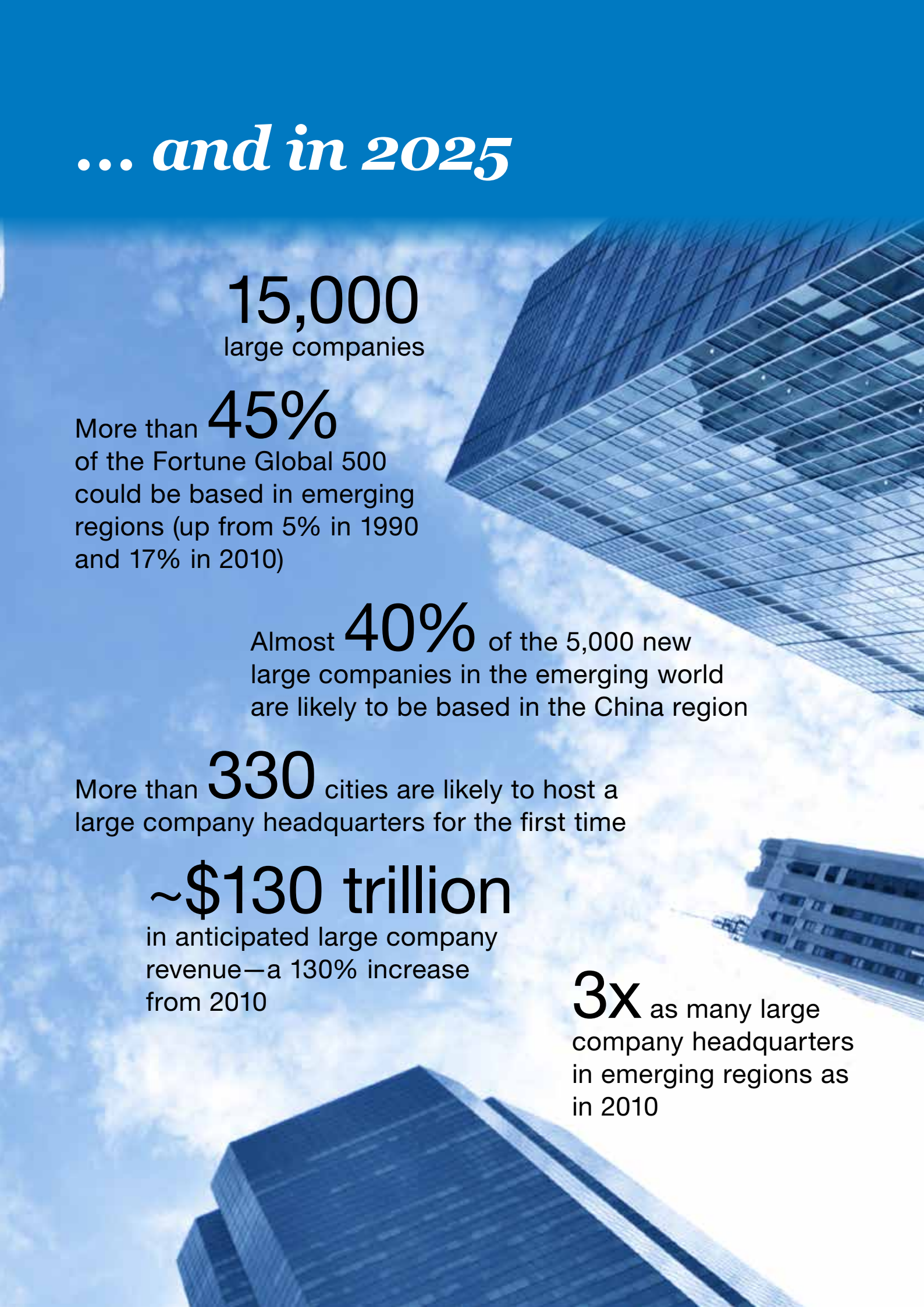
$57 trillion in consolidated revenue generated by these companies worldwide—or 90% of global GDP (not an exact like-for-like comparison)

73% of these large companies are in developed regions

800 of the world's largest companies are state-owned enterprises

20 cities are home to more than one-third of large companies

… and in 2025



15,000
large companies

More than **45%** of the Fortune Global 500 could be based in emerging regions (up from 5% in 1990 and 17% in 2010)

Almost **40%** of the 5,000 new large companies in the emerging world are likely to be based in the China region

More than **330** cities are likely to host a large company headquarters for the first time

~$130 trillion
in anticipated large company revenue—a 130% increase from 2010

3x as many large company headquarters in emerging regions as in 2010

Executive summary

The rise of emerging economies has presented multinational corporations with unprecedented market opportunities and the ability to tap into an increasingly skilled labor force. But a related shift is just beginning to gather force, and it has the potential to redraw the world's business map and rewrite the rule book on global corporate competition.

Emerging regions are not just a collection of new consumer markets or a source of cheap—and increasingly skilled—labor. They are also giving rise to thousands of new companies that are quickly reaching significant scale, and changing competitive business dynamics around the world. Business leaders need a better understanding of the current corporate landscape and how it is evolving in order to anticipate where the global economy is headed and how to prepare for a new wave of competitors.

Large companies matter—and not only for their ability to create jobs and generate higher incomes. They are also forces for higher productivity, innovation, standard setting, and the dissemination of skills and technology. Their geographic rebalancing will have wide-ranging implications for prosperity and growth in emerging economies, and it will shift more of the world's decision making, capital, standard setting, and innovation to emerging markets. But as a group, the world's largest companies have historically been poorly studied, and most research has focused only on publicly listed firms. To drive this research forward, we developed our MGI CompanyScope database, which tracks all publicly traded, privately held, and state-controlled companies with annual revenue exceeding $1 billion and maps each one to its global headquarters location (see Box E1, "Introducing the MGI CompanyScope database", for more detail).

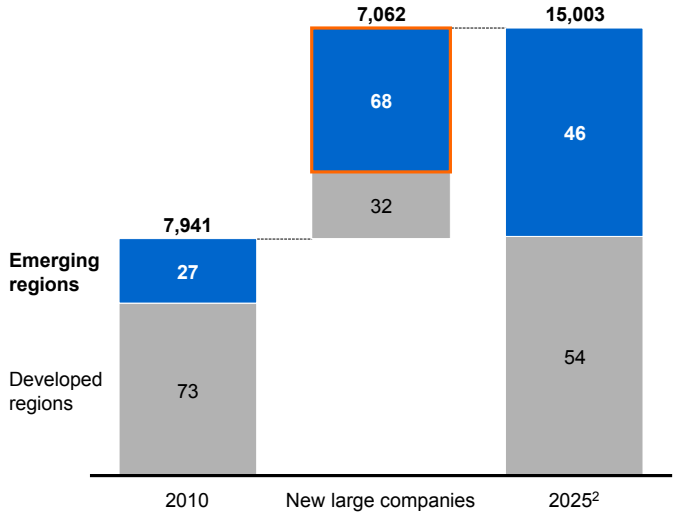
We find that there are some 8,000 distinct large companies worldwide with revenue of $1 billion or more, and three out of four are based in developed regions. We expect an additional 7,000 companies to grow to this size by 2025—and seven out of ten of these new entrants are likely to be based in emerging regions (Exhibit E1).[1]

1 These projections depend on assumptions of future GDP growth, but they are based on relatively conservative company growth assumptions and are directionally robust to a reasonable range of GDP growth projections. Our sensitivity analysis with alternative GDP growth assumptions indicates that by 2025, the total number of large companies with more than $1 billion in revenue may vary from 14,000 to 17,000. Emerging regions' share of the global total varies from 41 to 49 percent. See the technical appendix for the exact definition of developed and emerging regions.

Exhibit E1

Of the 7,000 new large companies that are expected to develop by 2025, seven out of ten will be in emerging regions

%; number of large companies[1]



1 Companies with $1 billion or more in revenue in 2010 or closest available year, captured at headquarters location.
2 Projections for 2025 are based on city GDP forecasts (see technical appendix for methodology).
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

This shift will be profound because large companies have an outsized impact on their home economies—and even on the global economy through their role in trade flows. In the United States, for example, up to half of GDP volatility can be linked to the performance of 100 companies.[2] In other nations, a single dominant company can make a difference in national economic performance. Together the companies in our database generate consolidated global revenue of around $57 trillion, which is equivalent in size to a striking 90 percent of global GDP.[3] By 2025, we anticipate that their revenue will climb to some $130 trillion.

Just as Japanese and South Korean companies became formidable global competitors in the past half century, new players from emerging markets, such as the Chinese telecommunications networking giant Huawei, Brazilian aircraft manufacturer Embraer, and India's industrial conglomerate Aditya Birla Group, are asserting their presence—and many more are soon to follow. By 2025, some of the global leaders in many industries may be companies we have not yet heard of, and many are likely to be based in cities that we could not point to on a map. The proliferation of large companies is likely to usher in an era of heightened corporate competition for markets, resources, and talent. Companies based in emerging markets can be sources of low-cost innovation that could disrupt entire industries, and many will set their sights on international expansion. Their growth will also represent a major opportunity for service firms and suppliers. To succeed

2 Xavier Gabaix, "The granular origins of aggregate fluctuations," *Econometrica*, volume 39, issue 3, May 2011; Julian di Giovanni and Andrei A. Levchenko, "Country size, international trade, and aggregate fluctuations in granular economies," *Journal of Political Economy*, volume 120, number 6, December 2012; Claudia Canals et al., *Trade patterns, trade balances and idiosyncratic shocks*, working paper number 0721, Banco de España, 2007.

3 The 2010 GDP of 180 countries is included. Company revenue and GDP are not directly comparable because the former includes not just final value added, but also the value of purchased inputs. However, the comparison is indicative of the size of the companies included on the list.

in this more dispersed business landscape, companies may need to reconsider their traditional organizational structures and find new ways to optimize their sales forces.

Cities themselves face intense competition in attracting companies. Of the 2,600 cities in MGI's Cityscope database, only 850 are home to the headquarters of large companies today.[4] In fact, just 20 major cities host one-third of all large companies—and the firms clustered in these top business hubs generate more than 40 percent of the combined revenue of all large companies. The emergence of thousands of next-generation companies will allow hundreds of new locations to host large companies for the first time by 2025. This presents an opportunity for cities to strengthen their local economic base and capture part of the next great wave of growth, assuming a role as hubs in global industry networks and supply chains.

Almost three out of four large companies are based in developed regions today

Any survey of the global business landscape that focuses solely on publicly traded companies will be incomplete. To gain deeper insight into where businesses are located today, we set out to map all large companies, no matter what their ownership structure. Our analysis reveals that 53 percent are publicly traded, 37 percent are privately owned, and 10 percent are state-controlled.[5] However, more than two-thirds of the true global giants—those whose revenue exceeds $50 billion—are publicly traded; only 11 percent are private, and 22 percent are state-controlled.

Although emerging regions will play a much larger role in the future business landscape, the picture today remains very different. We find that almost three-quarters of today's 8,000 large companies are based in developed regions, accounting for 76 percent of the global consolidated revenue of all large companies worldwide in 2010 (Exhibit E2). The United States, Canada, and Western Europe account for 11 percent of the world's population but are home to more than 50 percent of large company headquarters, which collectively account for almost 60 percent of large company revenue globally. In comparison, South Asia is home to 23 percent of the world's population but only 2 percent of all large companies and their consolidated revenue. The strength of longstanding legacy advantages remains clear: 64 of the 150 Western European companies in the 2012 Fortune Global 500, for example, were founded before 1900.

4 We define cities as metropolitan areas that include both a core city and surrounding metropolitan regions integrated into a connected urban region. Major cities include metropolitan areas with 150,000 or more inhabitants in developed regions and 200,000 or more inhabitants in developing regions.

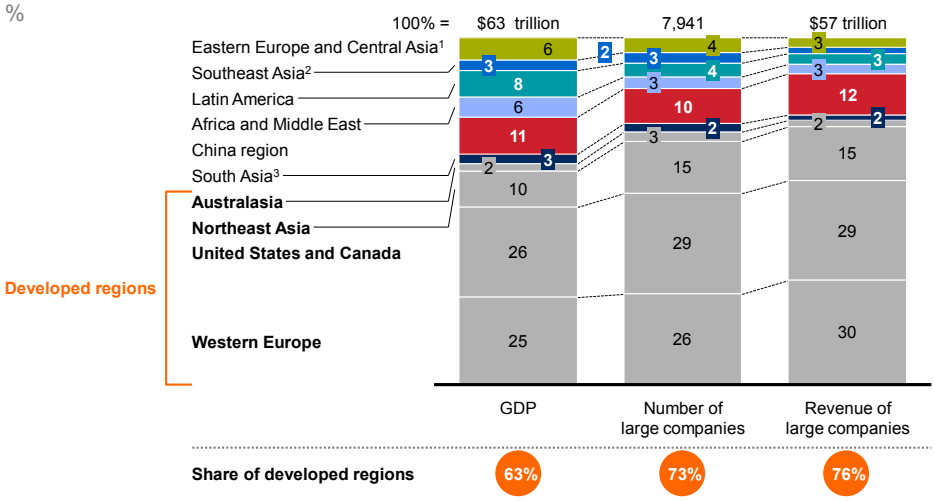
5 We define public companies as those traded on a stock exchange. If the government has a controlling share in a public or private company, we characterize it as state-controlled. We do not include state-controlled public companies in our totals of public companies nor state-controlled private companies in our totals of private companies.

Exhibit E2

Developed regions account for two-thirds of global GDP but almost three-quarters of large companies

2010

%



1 Large companies in Central Asia are in Turkey.
2 Includes large companies in Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.
3 Includes large companies in India and Pakistan.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

The continued concentration of large companies in developed regions reflects their larger home economies, as GDP—or the size of local markets—is by far the most significant determinant of company presence. In addition to GDP, we find the following four factors play a role in the relatively low share of large companies in emerging regions to date:

- **Limited reach and scale of the formal market economy.** Broad swaths of emerging economies remain beyond the reach of large companies. Subsistence agriculture, sparsely populated rural areas, and small-scale informal economic activity in cities are unlikely to generate revenue for large companies. There is a significant inverse correlation between the total revenue of large local companies and the share of that country or region that operates in the informal economy. According to the World Bank, Eastern Europe/Central Asia and Latin America have the largest shares of informal economic activity; they also have the lowest ratios of large company revenue to GDP (just below 50 percent). In contrast, the China region has the lowest share of informal economic activity in the emerging world and the highest number of large companies and the largest consolidated revenue relative to GDP.

- **Lower industry consolidation.** Mergers and acquisitions activity has consolidated companies in advanced economies to a greater extent than in emerging regions. For example, the top 30 players in the Chinese retail grocery market accounted for 15 percent of industry revenue in 2010, compared with 62 percent for the top 30 players in the United States; in the automotive industry, the ten leading players accounted for 93 percent of revenue in the United States but only 62 percent in China in that year. This

propels more companies across the "large company" revenue threshold. At the same time, the presence of these large companies gives rise to supply chains and service firms. So overall, the size distribution of companies is remarkably similar across regions, but there are simply more companies of all sizes in developed economies.

- **Less developed service sectors.** As a nation's income rises, its industry mix evolves, typically shifting from agriculture to a higher proportion of industry in the middle-income stage. Services grow continuously as a share of GDP as nations move along the income and economic development curve, adding new dimensions to their economies.[6] Only 38 percent of GDP is generated by services in countries with per capita GDP of less than $5,000, but that share averages 59 percent in countries with per capita GDP of over $40,000. This growth is reflected in the number of large service-sector companies. As incomes rise, we expect the lion's share of all new companies formed will be in services.

- **Limited foreign revenue**. Companies in emerging economies tend to have a lower share of foreign revenue than their counterparts in advanced economies. Looking exclusively at Fortune Global 500 companies, a pool more likely to have broader international reach, companies based in developed economies generate an average of 24 percent of total revenue outside their home region; for those based in emerging economies, the corresponding share is only 14 percent.[7] This is clearly changing. A host of companies from emerging regions—such as Chinese PC maker Lenovo, and Mexico's Cemex (one of the world's biggest producers of cement and building supplies) and Bimbo Group (the world's largest producer of bread)—have already entered new markets abroad. Beyond these examples, companies based in emerging regions are only in the early stages of branching out and expanding their global footprints.

While these findings hold true more broadly for developed versus emerging regions, there are sharp differences in the degree to which individual economies host large companies (Exhibit E3). To highlight these differences and examine the patterns behind them, we created the MGI Headquarters Density (HQD) index, which analyzes the ratio of the consolidated global revenue of all large companies based within a given economy to its GDP.

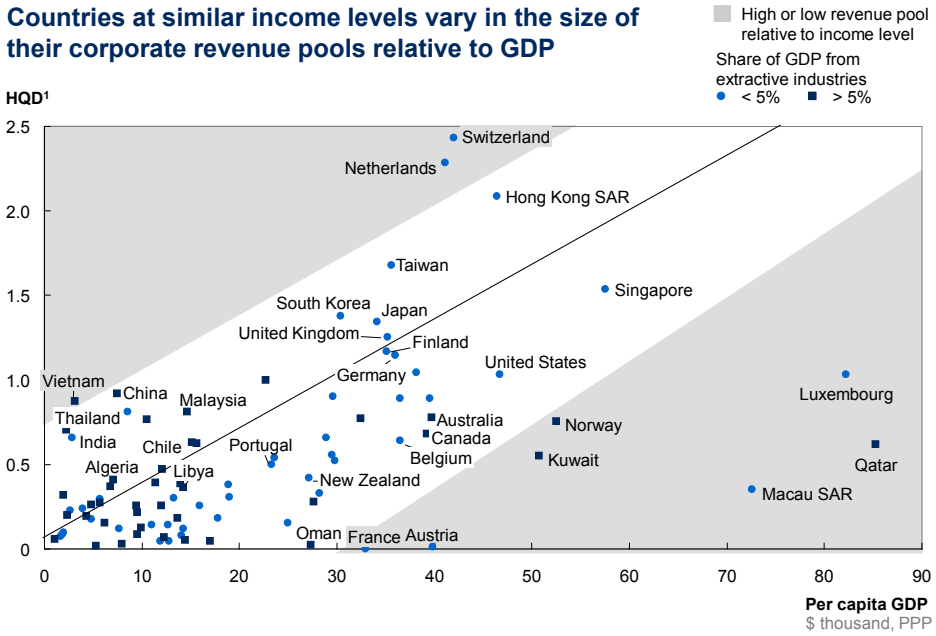
At a broad level, the HQD index confirms the concentration of large companies in developed regions. The total global revenue of large companies based in emerging regions equals 60 percent of their GDP, compared with 108 percent in developed regions. In other words, global revenue relative to GDP in developed regions is not far from double that in emerging regions.

6 *How to compete and grow: A sector guide to policy,* McKinsey Global Institute, March 2010.

7 Fifty-six companies in emerging regions and 374 in developed regions have sufficient data available to be included in this analysis. Because the analysis focuses only on the largest companies, it is likely to underestimate the gap given the number of global energy and resource companies in the emerging region pool; these typically have a higher proportion of revenue from overseas than other companies.

Exhibit E3

Countries at similar income levels vary in the size of their corporate revenue pools relative to GDP



1 The Headquarters Density (HQD) index is defined as the ratio of global consolidated revenue of all companies with total revenue of $1 billion or more that are headquartered in a given country to that country's GDP in 2010.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Yet individual countries with similar income levels vary widely in their HQD. We find that the following three factors play a crucial role in determining a nation's HQD score:

- **Ease and cost of doing business.** Countries with strong reputations for having attractive business environments tend to concentrate higher large company revenue. Corporate taxes play a role in this equation, but they are only one of multiple elements. Our analysis shows that HQD rankings correlate with the World Bank's Ease of Doing Business index, which includes factors such as the number of procedures, time, fees, and minimum capital investment required to start a business, as well as the tax level and associated administrative burden facing medium-sized companies.[8] Among the high HQD locations, Switzerland, the Netherlands, and Hong Kong have all put in place explicit economic development strategies designed to cultivate global companies.

- **High share of extractive industries.** Countries with a particularly high concentration of industries such as oil and gas, including those in the Middle East as well as Australia and Canada, tend to have a lower overall HQD. Typically a country's HQD score decreases by 0.14 for every 10 percent increase in the share of GDP generated from extractive industries. This is potentially a consequence of "Dutch disease" or the "resource curse" effect, in which large resource export revenue may strengthen a country's currency, increase the local cost base, and siphon a lion's share of its talent pool into the resource sector; this reduces competitiveness in other parts of the economy and makes it harder for large companies to develop in other sectors.[9]

8 Full details on the Ease of Doing Business index are available at www.doingbusiness.org.

9 This topic is the subject of an MGI report to be released in December 2013.

- **Openness to foreign companies.** There is evidence that the entry of foreign subsidiaries of more established multinationals can limit the growth of their local competitors, particularly in emerging economies. In Latin America, high import barriers in the second half of the 20th century encouraged local production by multinationals and contributed to the entry of foreign subsidiaries. The region continues to host a relatively large number of foreign subsidiaries but fewer locally based large companies than would be expected given the size of its economy.[10] A similar pattern is evident in Southeast Asia, which has only 3 percent of the world's global headquarters and only 2 percent of large company revenue, but one in ten of the world's foreign subsidiaries and 9 percent of worldwide subsidiaries' revenue.[11] In contrast, Japan and South Korea have both pursued development strategies that have limited the entry of foreign subsidiaries while actively supporting the growth of domestic companies, and they have relatively high HQD scores but few foreign subsidiaries.[12]

Cities are competing for large company headquarters—and only a small number are major hubs today

By mapping the new MGI CompanyScope database to MGI's Cityscope database, we can draw a detailed picture of the head office locations of today's global companies at the city level. This is a snapshot of a landscape in perpetual flux as companies merge and move, and as new companies cross the $1 billion revenue threshold and others drop below it. Mapping companies to the cities where they are headquartered helps shed light on the local environment and business "ecosystem" that shapes the mindset of senior management and thus offers clues to corporate behavior and competitive dynamics.

Despite regional differences, the head offices of major companies are extraordinarily concentrated in a small number of cities—in fact, of the 2,600 cities in MGI's Cityscope database, only 850 host the headquarters of a large company. The top 20 cities of the world (by the number of large company headquarters) are home to around one-third of all large companies and almost half of their combined revenue (Exhibit E4). This is much higher than the 17 percent share of global GDP these cities generate.

10 Latin America generates 8 percent of global GDP, but its companies account for only 3 percent of global large company revenue. The region is home to only 4 percent of the world's global headquarters and 3 percent of headquarter revenue. However, Latin America is home to 11 percent of foreign subsidiaries, generating 8 percent of worldwide subsidiaries' revenue.

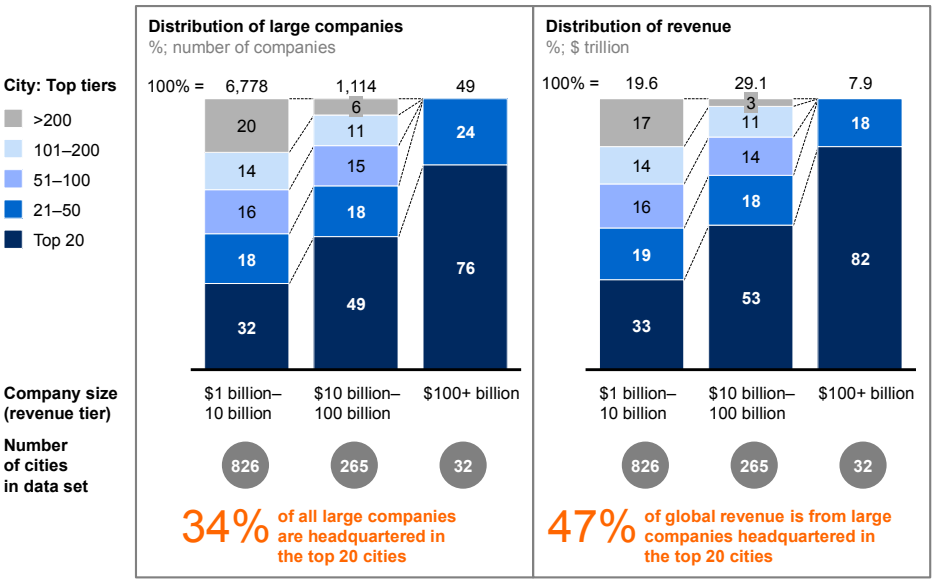
11 This is largely due to Singapore, which has become Asia's leading hub for subsidiaries, but other countries in Southeast Asia also have higher shares of global subsidiaries than of global headquarters.

12 These strategies include preferential financing and the protection of fledgling sectors in the case of some industries perceived to be of strategic importance. See, for example, World Bank, *The East Asian miracle: Economic growth and public policy,* Oxford University Press, 1993; and Ulrike Schaede, "What happened to the Japanese model?" *Review of International Economics,* volume 12, issue 2, May 2004.

Exhibit E4

One-third of large companies are headquartered in only 20 cities

Distribution of large companies and their global revenue by headquarters city



NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

There are only ten global cities in total that can lay claim to 100 or more large company head offices (Exhibit E5). Twenty of the top 25 cities are in developed regions, and Tokyo is by far the leading hub, with more than 600. Beijing is the highest-ranking emerging-market city. It places sixth for the total number of global headquarters, with 116, 105 of which are state-owned enterprises (SOE). But the size of these companies places Beijing third globally for total revenue of all companies headquartered in each city, surpassing even New York and London.

The world's 27 megacities (those with populations of ten million or more) are home to 28 percent of large companies and more than one-third of their consolidated revenue. Of these megacities, only Dhaka, Bangladesh, has no headquarters of companies with revenue of $1 billion. But surprisingly, the majority of the world's largest companies are based in cities with populations under five million. For example, Walmart's hometown of Bentonville is located in the metro area of Fayetteville, Arkansas, which has a population of only 470,000. Despite its small size, that same metro area is also home to another member of the Fortune Global 500, Tyson Foods.

The clustering of company headquarters does not simply reflect the patterns of where economic activity takes place. By looking at the share of national GDP produced by leading cities and comparing it with their share of total large company revenue, we can see varying regional patterns. These patterns indicate how concentrated corporate decision making is in different regions; it can also inform the geographical sales footprint of businesses whose customers or clients are senior managers in head offices.

Exhibit E5

Emerging regions are home to only five of the top 25 cities with the most large company global headquarters

Top cities ranked by number of large companies

Emerging regions

		Number of large companies	Total revenue, $ billion	Average revenue per large company, $ billion
1	Tokyo	613	5,231	8.5
2	New York	217	1,964	9.0
3	London	193	1,924	10.0
4	Osaka	174	1,028	5.9
5	Paris	168	2,785	16.6
6	**Beijing**	**116**	**2,503**	**21.6**
7	**Moscow**	**115**	**709**	**6.2**
8	Seoul	114	1,150	10.1
9	Rhein-Ruhr	107	1,220	11.4
10	Chicago	105	695	6.6
11	**Hong Kong SAR**	**96**	**468**	**4.9**
12	**Taipei**	**90**	**472**	**5.2**
13	Los Angeles	82	422	5.1
14	Zurich	79	770	9.8
15	Sydney	75	466	6.2
16	Stockholm	74	360	4.9
17	Houston	74	661	8.9
18	Nagoya	70	481	6.9
19	Randstad	67	1,516	22.6
20	**Singapore**	**64**	**343**	**5.4**
21	Dallas	63	804	12.8
22	Washington, DC	62	655	10.6
23	Toronto	61	436	7.2
24	Munich	61	581	9.5
25	Melbourne	58	289	5.0

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Take Northeast Asia as an example. The top three cities in Japan and South Korea (Tokyo, Osaka, and Seoul) produce 48 percent of the region's GDP but are home to 76 percent of its large companies. This level of concentration is likely a holdover from the close public-private collaboration that characterized early industrial policy; these are national or regional capitals, and large companies tended to locate where political and business decisions were made.

The United States, by contrast, has a much wider distribution of large company headquarters, reflecting the specialization of industry-specific "clusters" across the country. New York has the greatest number of large companies overall, but San Jose is the dominant location for high tech, Houston for oil and gas, Chicago for wholesale, Los Angeles for construction and entertainment, and Detroit for the auto industry.

In spite of the dominance of Beijing, a number of medium-sized cities in China are home to vibrant company clusters where a concentration of talent and services is becoming self-reinforcing. For example, Hangzhou has 22 headquarters of large companies across a diverse range of sectors; among them are the pharmaceutical company Huadong Medicine and the manufacturing company Hangzhou Steam Turbine. Shenzhen is a larger hub that is growing rapidly. It is home to a diverse spectrum of large companies, including Huawei Technologies, the world's largest telecom-equipment manufacturer; smartphone manufacturer ZTE Corporation; and Ping An, China's largest non-state-controlled insurance company.

Concentration tends to be the norm in other emerging regions, however. In South Asia, the top three cities contribute just 8 percent of regional GDP but are home to companies that generate 80 percent of the region's company revenue. Mumbai leads, with 57 of South Asia's 172 large company headquarters; Delhi and Bangalore trail with 26 and 11, respectively. In Southeast Asia, Singapore, Bangkok, Kuala Lumpur, Jakarta, Hanoi, and Manila together host 90 percent of large companies in the region. Johannesburg and Cape Town are the leading business hubs in sub-Saharan Africa, with 60 percent of the region's headquarters between them, but five of the 12 African cities with the highest GDP have no large company headquarters at all. In Latin America, companies headquartered in Mexico City have the highest revenue (the largest Mexican companies, such as state-owned petroleum company Pemex and telecommunications giant América Móvil, are located in Mexico City), but São Paulo has the greatest number of large companies in the region, with 48.

Industries vary in both the weight of large companies and the patterns that characterize the geographic distribution of their head offices, reflecting differences in the nature of their business. Companies in extractive industries, for example, are headquartered across a large number of cities around the globe. They are also the least geographically correlated with the locations of headquarters in other industries. The leading hub for energy companies, Houston, is home to 36 large companies in the oil and gas industry—more than the next two cities combined (Calgary, with 20, and Tokyo, with 15).

Of the 8,000 large companies in the MGI CompanyScope database, 33 percent are in the manufacturing sector. Tokyo has 263 manufacturing companies, in a broad range of subsectors, with revenue of more than $1 billion. That is almost three times as many as second-placed Osaka, which has 93 manufacturing headquarters. While low-tech manufacturing is spread across a wide range of cities, advanced automotive and electronics manufacturing activity tends to cluster in a smaller number of dominant hubs.

Overall, service companies are more likely to locate their head offices in cities with many other large companies. In fact, all ten cities with the most head offices in these sectors are the same as the top ten overall (led by Tokyo, New York, and London). However, variations exist across different service activities. Business services such as advertising and consulting are likely to locate close to their customers, in cities with a large total number of company headquarters. Insurance and banking headquarters are likely to align to global financial hubs. However, industries such as health care and real estate are highly local in nature, as a result of either regulation or the need to have access to local expertise. Their headquarters are found in a large number of medium-sized cities spread across different countries and regions.

Foreign subsidiaries are similarly clustered, but in different hubs

To understand the role of foreign subsidiaries, we have identified 2,300 of these operations with $1 billion or more in revenue in the MGI CompanyScope database. Developed regions are home to two-thirds of the 2,300 large subsidiary head offices in our database—lower than their three-quarters share of large company headquarters. Western Europe is home to a very high 41 percent of the global total, 3.4 times the US share, as European firms have expanded across national borders to penetrate more of Europe's single market.

Today large foreign subsidiaries are still predominantly from parent companies based in advanced economies, and they are heavily concentrated in just a few key cities in each region. In the emerging economies of Asia outside the China region, for instance, more than half of foreign subsidiaries are in Singapore. In Latin America, 23 percent of foreign subsidiaries are located in São Paulo.

The list of top cities chosen for foreign subsidiary offices diverges from the list of top cities for headquarters. London, Paris, and New York rank first, third, and fourth for subsidiaries, but second and sixth places go to Singapore and São Paulo, which are ranked 20 and 35, respectively, among the top hosts of global headquarters. The divergence between leading locations for global headquarters and subsidiaries is particularly striking in emerging regions (Exhibit E6).

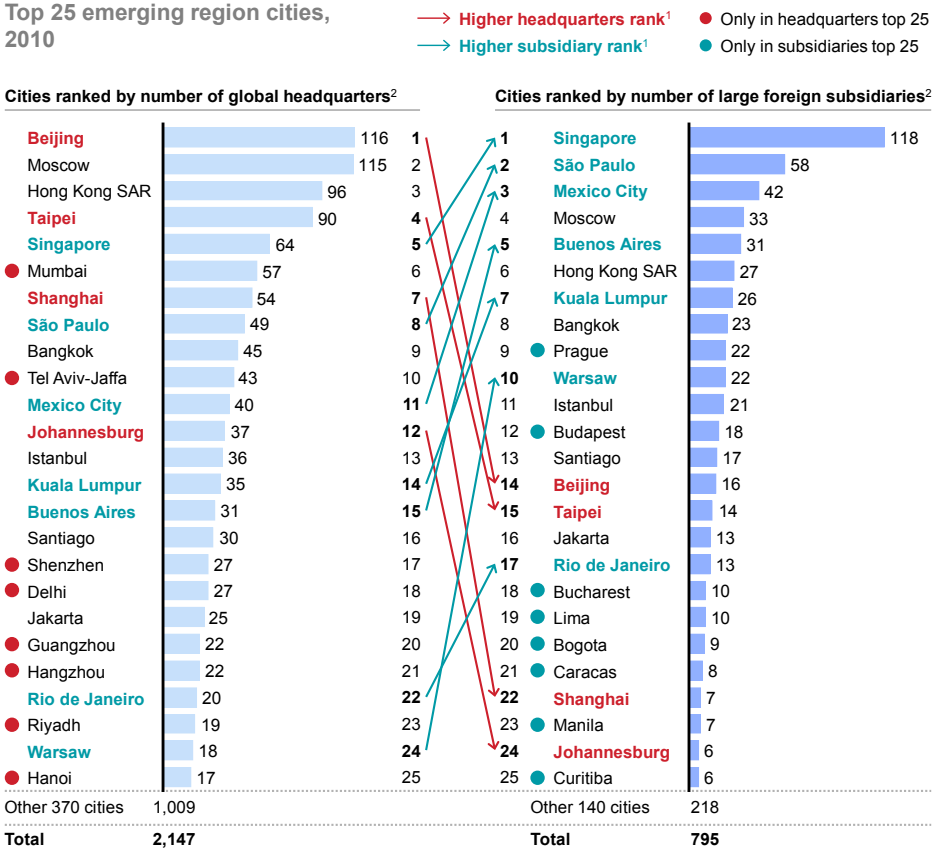
Companies tend to grow organically in the cities where they are founded, developing local ties that become "sticky"; as a result, company headquarter moves are relatively uncommon. Cities in both the developed and emerging worlds may find that it pays to focus their efforts on attracting regional head offices as thousands of global companies, both old and new, expand into new markets in the coming decade.

At present, across all geographical regions, large foreign subsidiaries seem to cluster in cities that are not just well connected and good places to do business, but where senior managers would like to live. Cities with reputations for a high quality of life—such as Sydney, Toronto, Prague, and Singapore—have been relatively more successful in attracting the foreign operations of multinationals. But the more diverse companies from the emerging world may factor in a broader set of criteria when selecting locations for future expansion, including the personal ties of executives who were educated abroad, the need to diversify family holdings, reputation building in their home markets, and a greater willingness to enter frontier markets.

Exhibit E6

In emerging regions, the leading cities for global headquarters differ significantly from the locations of choice for foreign subsidiaries

Top 25 emerging region cities, 2010



1 By more than three places.
2 Companies with revenue of $1 billion or more in 2010 or closest available year.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

The company landscape is just beginning to undergo a pronounced shift toward emerging regions

Based on analysis of GDP forecasts and historical ratios of company prevalence to GDP, we expect an additional 7,000 companies to cross the $1 billion revenue threshold by 2025, and a clear majority of the newcomers will likely be from the emerging world. The number of large companies based in emerging regions is set to more than triple, and their share is expected to increase from 27 percent of the global total today to over 45 percent by 2025. We expect a similar shift of global consolidated revenue, with the share generated by large companies based in emerging regions rising from 24 to 46 percent.

It is not possible to project the growth of individual companies or cities with precision, of course, given the number of variables at work. But despite recent volatility in emerging markets, we believe the broad patterns of long-term growth

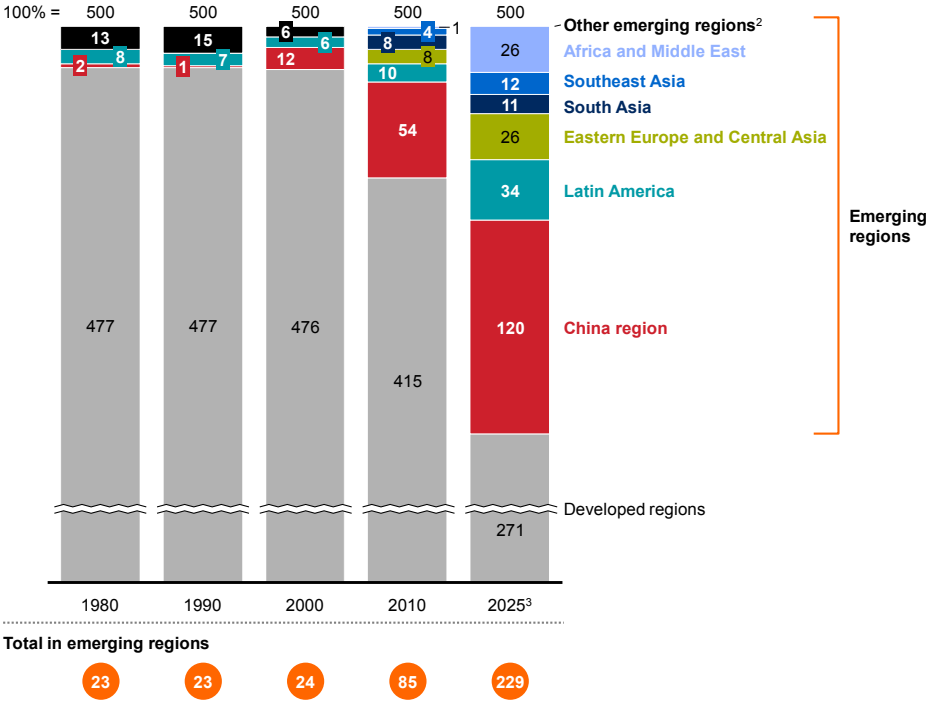
will continue, and our analysis remains remain robust across a reasonable range of key assumptions.[13]

The changing roster of the Fortune Global 500 provides a vivid illustration of this trend (Exhibit E7). Between 1980 and 2000, the share of companies on the list based outside developed regions stayed relatively flat, at 5 percent. By 2010, this share was up to 17 percent of the total, and it has climbed further to reach 26 percent in 2013. Based on projected growth by region, we expect the emerging world to account for more than 45 percent of the Fortune Global 500 by 2025. We also anticipate that roughly 120 of the names on the 2025 list will be based in the China region.[14]

Exhibit E7

By 2025, emerging regions are expected to be home to almost 230 companies in the Fortune Global 500, up from 85 in 2010

Evolution of the Fortune Global 500[1]
Number of Fortune Global 500 companies



1 The Fortune Global 500 is an annual ranking of the top 500 companies worldwide by gross revenue in US dollars.
2 Shares of emerging regions excluding China and Latin America combined until 2000.
3 Fortune Global 500 share in 2025 projected from revenue shares of countries in 2025.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

13 Our estimates of the number of large companies and their collective revenue by city are based on the expected GDP growth of each city and the patterns of large company presence (number and collective revenue) across cities of different sizes today. Our estimates are relatively conservative: we assume that the historically observed relationships of city GDP to the number of local companies will hold in 2025. MGI estimates city-specific GDP growth rates from 2010 to 2025 based on the average of country GDP growth projections from IHS Global Insight, the Economist Intelligence Unit, Oxford Economics, and McKinsey's Long-Term Growth Model in combination with region-specific approaches that reflect whether past GDP growth data were available for the city or not.

14 We performed a sensitivity analysis using different GDP growth assumptions and found that the emerging regions' share of Fortune Global 500 companies in 2025 varied from 39 to 50 percent.

As local economies in emerging regions continue to grow, markets for consumer goods (and increasingly for services) are expanding and becoming more accessible, propelling more companies across the $1 billion revenue threshold. Among the underlying sources of GDP growth that will fuel this trend in emerging regions are rapid urbanization, income growth, and exchange-rate appreciation.[15] At the same time, growing density allows local companies to benefit from economies of scale and support a broader base of suppliers. Emerging regions will increase the base of large companies relative to their GDP, narrowing the current gap with developed regions.

The leading business hubs in emerging regions today are likely to continue to attract a disproportionate share of future company growth. São Paulo, for example, is expected to more than triple its number of large company headquarters by 2025, while Beijing and Istanbul could have more than twice as many head offices as they do today. Some 400 cities in emerging regions already host at least one large company (and many more in some cases), and our analysis suggests that this same set of cities will add more than 3,900 companies by 2025—an increase of more than 180 percent.

Despite the robust growth of existing business hubs, company headquarters will become more dispersed across the emerging world. Today, 80 percent of the 2,200 large companies in emerging economies are spread across almost 100 cities; by 2025, 80 percent of the 7,000 large companies are likely to be spread across nearly 160 cities. We estimate that roughly 280 up-and-coming cities in emerging economies could host a large company for the first time. Among the newcomers could be such cities as Shantou, China; Campinas, Brazil; and Izmir, Turkey.

Geographic rebalancing will have important implications for market opportunities, competition, and economic growth

The corporate giants that emerge in the years ahead will be central actors shaping the global economy. They will fuel local growth in some regions and reconfigure global transport and communications networks.

Companies in emerging regions serve home markets that are more diverse than the world's mature markets, and they have learned to compete for customers at very different income levels. In the course of adapting to constraints in physical and social infrastructure and to differing regulatory environments and enforcement practices, many of them are developing a corporate culture of ingenuity, making them potentially formidable competitors for today's global incumbents.

We expect almost half of all large companies in 2025 to be new ones that join the pool in the coming years. Many will become faster-growing "gazelles" that will generate the bulk of new jobs and value added in the global economy—along with significant business opportunities for their suppliers and service providers. This is not an entirely new story: in the 1970s and 1980s, many US and European incumbents were caught unaware by the swift rise of Japanese companies that set a high bar for productivity and innovation. More recently, South Korean

15 *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012.

companies such as Hyundai and Samsung have shaken up the leading ranks of high-value-added industries from automobiles to personal electronics.

Emerging-market companies come from distinct regulatory and corporate cultures, and they may operate quite differently than Western multinationals. South Korean companies are a case in point. Many South Korean firms are family controlled, enabling them to take a longer view that supports heavier capital investment and to build market share at the expense of short-term quarterly profits. Their R&D is extensive, and it moves quickly due to long working weeks and intense internal competition between R&D teams. These companies have access to a hard-working and well-educated workforce, and can have a leading position in their home market. These add up to a potent combination that has enabled the rapid growth of South Korean companies, many of which are now heavily studied by companies from other emerging markets. In the coming decades, new challengers will appear from multiple countries, with an ever-widening array of innovative strategies and business models. Today's CEOs need to prepare for this new wave of competitors by understanding who they are and how they will compete differently.

BUSINESSES NEED TO UNDERSTAND THE NEW COMPANY LANDSCAPE TO TRACK COMPETITION AND TAILOR THEIR ORGANIZATIONS

Most consumer-facing companies are already intensely focused on the rapidly expanding consumer class and the growing pool of skilled people in the labor forces of emerging economies, and are putting in place strategies for entering the most attractive markets. But today, executives have to consider emerging economies not only as consumer markets and a source of labor, but also as a source of rising companies that will be potential customers and competitors. Today's business leaders face three key imperatives:

1. **Optimize sales network according to where business customers are based.** Business-to-business (B2B) companies—that is, those whose customers are other businesses—will face a profound shift in the geography of their markets, and they need to assess how to organize themselves to sell to a much more diverse and dispersed customer base. This will entail rethinking and perhaps redeploying their sales networks. Yet few companies today have a sufficiently reliable picture of their new potential customer base to say definitively how many sales offices they will need to establish in new cities in order to cover the bulk of their target market—let alone how this is likely to evolve in the future. Optimizing a company's sales force is not a one-off decision. The business landscape is continuously evolving, and the challenge will be to stay abreast of its movements. This issue will require continuous monitoring and greater sales force mobility.

2. **Understand how the ecosystem for customers and competitors is evolving.** Companies need to track up-and-coming hubs in emerging regions, where new competitors are developing more diverse business models. Business leaders will need to watch for new sources of innovation and potentially disruptive change. And it is only a matter of time before the most successful companies in the emerging world set their sights on international expansion. Companies from emerging regions are growing faster than their counterparts from developed regions—not only in their home markets, but

also in overseas markets.[16] (Witness the aggressive expansion of India's Tata Motors into Europe over the past decade.) As incumbents in advanced economies find new challengers arriving in their own backyard, they will need to be prepared to compete not only for global customers but also for talent, capital, and resources. Small and medium-sized cities across the emerging world pose a particular blind spot, yet they may give rise to future competitors. Hsinchu, in northern Taiwan, for example, is not a household name, but it is already the fourth-largest advanced electronics and high-tech hub in the China region, home to 13 large company headquarters in these industries. Similarly, Brazil's Santa Catarina metropolitan district is not yet on the radar of most executives, but it has become a regional hub for electronics and vehicle manufacturing, hosting several billion-dollar companies such as WEG Indústrias S.A. New industry hot spots will be sources of both competition and demand.

3. **Reconsider headquarters configuration and location choices**. Once companies gain a thorough understanding of their industry's new ecosystem, they may need to rethink the structure and location of senior management in response to it. Already, many are finding that the traditional single-headquarters model no longer meets their needs. Some have set up secondary headquarters or split head office functions to align more closely with markets outside their home territory. General Electric, Caterpillar Group, and others have divided their corporate centers into two or more locations that share decision making, production, and service leadership. Unilever created a second headquarters for global development in Singapore, which now houses key members of the company's senior leadership team to complement the traditional headquarters in London. Some companies from emerging regions may expand globally not only to enter new markets but also to gain new capabilities as they do so; Brazilian aerospace company Embraer and China's telecommunications giant Huawei leapfrogged some technological learning stages and accelerated growth by adopting a mergers and acquisitions strategy in developed regions.

THE RISE OF NEW GLOBAL COMPANIES CREATES OPPORTUNITIES FOR NATIONS AND CITIES, BUT COMPETITION IS GETTING TOUGHER

The rapidly rising number of large companies is welcome news for nations and cities, and it represents an especially important opportunity for emerging regions seeking to reach the next level of economic development and prosperity. Yet not all locations will emerge as winners. What is clear is that a broadening base of cities from the emerging world (including smaller cities) will continue to integrate into global markets, and the competition among cities for headquarters and subsidiaries will intensify.

The headquarters of large companies tend to remain where the businesses grew organically. Cities with large and diversified local urban economies and favorable business environments create the right conditions for greater numbers of new firms to thrive and grow. A rising population generates demand, enabling companies to scale up and expanding the availability of labor and talent. City leaders can take an active role in strengthening schools and creating vocational

16 *Winning the $30 trillion decathlon: Going for gold in emerging markets,* McKinsey & Company, August 2012.

training programs; locations with research universities and access to a pool of new graduates will have an advantage in this new era. Cities and nations also have to focus on creating a competitive business environment with streamlined and efficient regulatory and permitting processes. In addition to talent, companies look for good airport facilities, lower corporate taxes, competitive wages, and the presence of other companies in related industries. Once a budding industry cluster reaches critical mass, it can become a magnet for talent, capital, and other startups.

Beyond cultivating the growth of local businesses, forward-looking cities and nations want to attract existing companies that are looking to relocate all or part of their head offices—an infrequent but not unknown occurrence, with larger and younger companies more likely to undertake such a move. Yet the more promising avenue for most cities is to attract foreign subsidiaries, especially those of rising emerging-market multinationals. Thousands of such companies are expanding, and these moves are a moment when companies can exercise real choice in locations. Some entrepreneurial mayors are already making moves to seize this opportunity. China is the most powerful growth engine for new global companies, and now is the time for forward-thinking cities to build their reputations among Chinese business leaders. London's mayor, for example, signed a $1.6 billion deal with a property developer to turn the Royal Albert Dock into a Chinese business district, while Chicago launched a campaign to establish itself as the most China-friendly city in the United States.

For local leaders, a good starting point is to understand how companies make location choices and where their city faces challenges in the course of that process. If their country or city does not make it into the round of initial consideration, the imperative is to improve its visibility and reputation nationally or internationally, through either broad-based marketing or more proactively courting large anchor companies. It is also important to assemble a realistic fact base on how a city stacks up against its competitors on such criteria as market potential, wages and other costs, talent pool, logistics and other infrastructure, regulatory factors, risk, and others—and then to focus on areas that can be improved, whether that entails cutting red tape or modernizing infrastructure. Toronto's Board of Trade, for example, has formalized this process by tracking the city's evolving strengths and weaknesses against 24 other cities in an annual report. And in the end, the responsiveness, professionalism, and helpfulness of city representatives can tip decisions.

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Today the world's major companies are remarkably concentrated in a small number of cities. Studying today's patterns—both by city and by industry—can yield valuable insights, but because emerging economies are growing at dramatically different speeds, business leaders have to continuously monitor these trends in order to spot new markets and competitors. The next ten to 15 years are likely to bring about a seismic shift that challenges the longtime dominance of Western companies. But while the rise of new corporate giants will surely heighten competition for companies and cities alike, it is far from a zero-sum game. It will open up possibilities for economic growth in new corners of the globe. In addition, these up-and-coming companies may provide a much-needed injection of dynamism and new ideas that will drive innovation, productivity, and job creation. All of these factors are likely to shape not just where but *how* businesses operate around the globe for decades to come.

Box E1. Introducing the MGI CompanyScope database

The new MGI CompanyScope database includes around 8,000 public and private companies and SOEs, all with annual revenue of $1 billion or more. It captures information on their global consolidated revenue (which combines revenue from the parent company with that of its subsidiaries), the industries in which they operate, and their headquarter cities. Most of the jobs associated with large companies are not concentrated in their head offices, but information on the location of headquarters is the best available proxy for understanding where large companies are based and how that ecosystem might influence the way they operate. In addition to tracking the world's largest companies, the database includes some 2,300 foreign subsidiaries with revenue of more than $1 billion.

Several features and findings are worth noting.

Companies are mapped to their operational rather than legal headquarter location. For tax reasons, or due to the legal infrastructure of a particular jurisdiction, many companies incorporate in a country or city where they have a limited physical presence. However, we have used the location where the most senior executives are based rather than a company's legal home. For example, we consider Glencore to be based in Switzerland although the business is legally incorporated in Jersey in the Channel Islands. The legal headquarters of Latin American metal manufacturer Ternium S.A. is in Luxembourg, but our database maps the company to Buenos Aires, where the CEO and other top management members are based.

Pure holding companies are excluded and conglomerates are counted as a single company to ensure complete coverage without double-counting of revenue. We include only companies providing goods or services to customers, rather than companies whose main purpose is to hold shares of other companies. Further, any company that is 50 percent or more owned by another company in the database is considered a subsidiary, not a global company. For example, we do not include Berkshire Hathaway but do include companies in which it invests (such as Geico, Heinz, and Fruit of the Loom) whose revenue exceeds $1 billion. Porsche and Audi are included as subsidiaries, not as separate companies, since both are owned by Volkswagen. Our database includes separate companies that are controlled by a single family or corporate group (for example, Tata Group companies and Japanese *keiretsu* groups).

Each company is mapped to a single global headquarter city from MGI's Cityscope database. The headquarter location for Glencore, mentioned above, is listed as Zurich, which is the closest MGI Cityscope urban region to Baar, the physical location of the company's head office. In cases where companies are dual listed or have dual headquarters, we have opted for the location where most senior executives have their main offices, and we treat other

locations as subsidiaries. For example, although Rio Tinto is dual listed on the London Stock Exchange and the Australian Securities Exchange, we consider London to be the headquarters because this is where the CEO and around half of the other top management members are based. In the case of General Electric, which has its global growth and operations division in Hong Kong, we consider its corporate headquarters to be Fairfield (in the Bridgeport, Connecticut, metropolitan area), despite the company's dispersed head office structure. In cases where companies have more than one international headquarter location with regional revenue greater than $1 billion, we include the rest in the subsidiaries database.

The inclusion of privately held companies and SOEs offers a more comprehensive picture of economic activity. In addition to tracking publicly traded companies, MGI CompanyScope includes privately held firms, which account for more than one-third of the world's largest companies. It also includes more than 800 SOEs—and in fact, their average revenue is larger than that of either public or private companies in the database. Seventy-seven percent of SOEs are located in emerging regions. Among companies with revenue exceeding $50 billion, more than one in five is state-owned, including Saudi Aramco, Brazil's Petrobras, and China National Petroleum. But not all SOEs are global giants: South Korea's Incheon International Airport Corporation, Aeolus Tyre Company in the Henan Province of China, and Russian oil company JSC Zarubezhneft, for example, all have revenue between $1 billion and $2 billion.[17]

Manufacturers are most numerous among the world's largest companies, while extractive industries and insurance are dominated by a smaller number of giants. Among all 8,000 large companies, manufacturers are by far the largest industry group, with almost one-third of the total, or 2,600 companies. The utilities, transport, and construction sector has 1,270 companies in the database, followed by the wholesale and retail sector, with 1,030. Only 520 large companies in extractive industries (that is, oil, gas, and mining) are included, but their average revenue is $15.0 billion, exceeding that of all other industries. This sector is dominated by a small number of oil majors, mining giants, and huge SOEs; just ten of them have combined revenue of $2.5 trillion. Some 39 percent of all large companies in extractive industries are based in emerging regions. Insurance is another sector represented in the database by a relatively small number of large companies, but with average revenue of $12.4 billion; these include giants Allianz SE, AXA, and Assicurazioni Generali in Western Europe as well as Japan's Nippon Life Insurance. In other sectors, just over half of the 348 textiles, paper, printing, and furniture manufacturing firms in the database have revenue between $1 billion and $2 billion.

17 SOEs with revenue over $1 billion are most numerous in transport and communication (117); banking (103); electricity, gas, and water supply (85); and extractive industries (96). SOEs have the highest total revenue in extractive industries, where 96 companies have total revenue of $2.6 trillion.

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Urban World tablet app (May 2013)

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Urban world: Cities and the rise of the consuming class (June 2012)

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Urban world: Mapping the economic power of cities (March 2011)

Six hundred cities—the City 600—are projected to generate more than 60 percent of global GDP growth to 2025. Within this group, companies need to adjust their strategy to include the 577 fast-growing "middleweight cities."

Building globally competitive cities: The key to Latin American growth (August 2011)

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Urban America: US cities in the global economy (April 2012)

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